3. Auditor expresses unmodified/unqualified opinion when he concludes that financial statements are prepared in all material respects as per applicable financial reporting framework (FRF). [SA-700]
4. However, he expresses modified opinion when he
   (i) concludes that financial statements as a whole are not free from material misstatements, or
   (ii) is unable to obtain sufficient and appropriate evidence to form conclusion. (SA 705)
5. The type of modification depends upon the nature of matter giving rise to modification and auditor's judgment about the pervasiveness of effect/Possible effects on the financial statements.
6. As per SA-705, the auditor expresses a disclaimer of opinion when his inability to obtain sufficient appropriate evidences is so material and pervasive that quantification is insufficient. (Due to possible effects on financial statements.)
7. He shall place "Basis for disclaimer of opinion" Para immediately before opinion Para. As qualification of Possible effects on financial statements is impracticable, he shall state this fact therein.
8. Wordings of **"Disclaimer of opinion"**
   Because of significance of matters described in the "basis for disclaimer" Para, the auditor has not been able to obtain sufficient appropriate evidences & thus, the auditors does not express an opinion on the financial statements.
9. However, if there is limitation on his scope by management, he shall communicate the same to TCWG and when its not possible to perform alternate procedures and possible effect is material and pervasive he shall either resign or express a disclaimer.
10. He shall state in "auditor's responsibility" Para that he was not able to obtain sufficient appropriate evidence.
11. As per SA-705 he shall communicate to TCWG in case he expects to modify his opinion as well. This communication includes the circumstances and proposed wordings of *Disclaimer* opinion.

6.2 AUDIT REPORTS UNDER THE COMPANIES ACT, 2013 *the same has already been covered in chapter 5 under section 143.*

6.3 COMPANIES (AUDITOR'S REPORT) ORDER, 2015

APPLICABILITY:

The order provides that it shall not apply to:

(i) A banking company;
(ii) An insurance company;
(iii) A company licensed to operate under Section 8 of the Companies Act,
(iv) (iv) a one person Company and a small company

1. Paid-up share capital would include both equity share capital as well as the preference share capital.
2. Both capital as well as revenue reserves should be taken into consideration while computing the limit of rupees fifty lakhs prescribed for paid-up capital and reserves.
3. Revaluation reserve, if any, should also be taken into consideration while determining the figure or reserves for the limited purpose of determining the applicability of the order.
4. The debit balance of the profit and loss account, if any, should be reduced from the figure of revenue reserves.
5. Loans from banks or financial institutions are normally in the form of term loans, demand loans, working capital limits, cash credits, overdraft facilities, bills purchased or discounted.

Adverse Opinion

1. The auditor's opinion can broadly be divided into two categories
   (a) Unqualified opinion
   (b) Modified opinion - Qualified
   - Adverse
   - Disclaimer
2. SA-700 (Revised) "forming an opinion & reporting on financial statements" deals with unqualified opinion whereas modified opinion is covered in SA-705 "Modifications to the opinion in the Independent Auditor's Report".
3. Auditor expresses unmodified/unqualified opinion when he concludes that financial statements are prepared in all material respects as per applicable financial reporting framework (FRF). [SA-700]
4. However, he expresses modified opinion when he
   (i) concludes that financial statements as a whole are not free from material misstatements, or
   (ii) is unable to obtain sufficient and appropriate evidence to form conclusion. (SA 705)
5. The type of modification depends upon the nature of matter giving rise to modification and auditor's judgment about the pervasiveness of effect/Possible effects on the financial statements.
6. As per Sa-705, when the auditor's concludes that financial statements are materially misstated and effect of such misstatements is so material and pervasive on the financial statements that only qualified opinion will be insufficient, he expresses adverse opinion.
7. Whenever he expresses adverse opinion he shall place another para named as "Basis for adverse opinion" immediately before the opinion para. Here he shall describe the matter giving rise to such adverse opinion alongwith its quantification.
8. Wording of "Adverse opinion":
   In the auditor's opinion because of significance of matters described in the basis for adverse opinion Para,
   (a) The financial statements do not present fairly (or give a true & fair view) in accordance with fair presentation framework, or
   (b) The financial statements have not been prepared, in accordance with compliance framework.
9. Thus, he expresses adverse opinion due to pervasiveness of misstatement found .
10. Moreover, in case of adverse opinion, he shall state in "auditor's responsibility " Para that auditor has obtained sufficient and appropriate evidences to provide a basis for auditors *Adverse* opinion.
11. As per SA-705 he shall communicate to TCWG in case he expects to modify his opinion as well. This communication includes the circumstances and proposed wordings of *Adverse* opinion.

Disclaimer of Opinion

1. The auditor's opinion can broadly be divided into two categories
   (a) Unqualified opinion
   (b) Modified opinion - Qualified
   - Adverse
   - Disclaimer
2. SA-700 (Revised) "forming an opinion & reporting on financial statements" deals with unqualified opinion whereas modified opinion is covered in SA-705 "Modifications to the opinion in the Independent Auditor's Report".

(v) A private limited company with a paid-up capital and reserves not more than rupees fifty lakhs and which does not have outstanding loan exceeding rupees twenty five lakhs from any bank or financial institution and does not have a turnover exceeding rupees five crores at any point of time during the financial year.

Paidup Cap + Res < 50 Lacs
Loan o/s < 25 Lacs
Turnover < 5 crores
NA

6. Outstanding balances of such loans should be considered as loan outstanding for the purpose of computing the limit of rupees twenty five lakhs.
7. It is clarified that since the words used by the order are 'any bank or financial institution', the limit of exceeding twenty five lakh rupees applies in aggregate to all loans.
8. It defines the term "turnover" as the aggregate amount for which sales are effected by the company.
9. It may be noted that the "sales effected" would include sale of goods as well as services rendered by the company. Following should be considered:
   - (a) Sales tax collected or excise duties collected should not be taken into account if they are credited separately to sales tax account or excise duty account;
   - (b) Trade discounts should be deducted from the figure of turnover;
   - (c) Commission allowed to third parties should not be deducted from the figure of turnover; and
   - (d) Sales returns should be deducted from the figure of turnover even if the returns are from the sales made in the earlier years.

Matters to be included in the auditor's report

FIXED ASSETS

(i) (a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.

1. It requires the auditor to comment whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.
2. These records should also contain particulars in respect of those items of fixed assets that have been fully depreciated or amortised or have been retired from active use and held for disposal.
3. The records should also contain necessary particulars in respect of item of fixed assets that have been fully impaired during the period covered by the audit report.
4. The purpose of showing the situation of the assets is to make verification possible.
5. Where assets like furniture etc., are located in the residential premises of members of the staff, the fixed assets register should indicate the name/ designation of the person.

(b) Whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account.

1. Physical verification of the assets has to be made by the management and not by the auditor.
2. The auditor may observe the verification, particularly when verification of all assets can be made by the management on a single day or within a relatively short period of time.
3. It is necessary to ensure that the person making the verification had the required technical knowledge, where such knowledge is required.
4. It is also possible for verification to be made by outside expert agencies engaged by the management for the purpose.

	5.	The management may decide about the periodicity of physical verification of fixed assets.
	6.	Auditor should obtain a management representation letter confirming that the fixed assets are physically verified by the company as per policy of the company.
	7.	The letter should also include the details of the material discrepancies noticed during the physical verification of the fixed assets.
	8.	If no discrepancies were noticed during the physical verification, the management representation letter should also mention this fact clearly.
(ii) (a) **Whether physical verification of inventory has been conducted at reasonable intervals by the management.**	1.	Inventories include goods purchased and held for resale, for example, merchandise purchased by a retailer and held for resale.
	2.	Inventories also include finished goods produced, or work in progress and materials, stores and spares, consumables and lose tools.
	3.	Physical verification of inventory is the responsibility of the management of the company.
	4.	The periodicity of the physical verification of inventories depends upon the nature of inventories and their location.
(b) **Are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business? If not, the inadequacies in such procedures should be reported.**	1.	In case the procedures of physical verification of inventories, in the opinion of the auditor, are not reasonable and adequate in relation to the size of the company and the nature of its business, the auditor has to report the same.
	2.	While the physical verification of inventories is primarily the duty of the management, the auditor is expected to examine the methods and procedures of such verification.
	3.	This would require the auditor to make use of his professional judgment.
	4.	The SA-501, "Audit Evidence – Additional Consideration for specific items", lays down the guidance regarding the audit procedures to be applied for physical verification of inventory.
(c) **Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account.**	1.	It requires the auditor to comment whether any material discrepancies were noticed on physical verification of inventory and if so, whether those material discrepancies have been properly dealt with in the books of account.
	2.	What constitutes "proper records" has not been defined.
	3.	The records should contain the particulars in respect of all items of inventories.
	4.	The auditor should also satisfy himself that the stock registers are updated as and when the transactions occur.
(iii) **Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 189 of the Act, if so,**	1.	The auditor should obtain a list of companies, firms or other parties covered in the register maintained under Section 189 of the Act from the management.
	2.	The auditor should also take into consideration the loan transactions that have been squared-up during the. year

(a) Whether the receipt of the principal amount and interest are also regular.	1. This part of the clause requires the auditor to report upon the regularity of receipt of principal amount of loans and interest thereon. 2. The auditor has to examine whether the receipt of principal and interest is regular. 3. The word 'regular' should be taken to mean that the principal and interest should normally be received whenever they fall due respectively.
(b) If overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recover of the principal and interest.	1. A loan is considered to be overdue when the payment has not been made or received on the due date as per the lending arrangements. 2. In such cases, the auditor has to examine the steps, if any, taken for recovery of this amount. 3. It is not necessary that steps to be taken must necessarily be legal steps. 4. Depending upon the circumstances, issue of reminders or the sending of an advocate's or solicitor's notice, may amount to "reasonable steps" even though no legal action is taken.
(iv) Is there an adequate internal control system commensurate with the size of the company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of goods and services? Whether there is a continuing failure to correct major weaknesses in internal control system.	1. "Internal Control System" means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, the orderly and efficient conduct of its business. 2. Reference may also be made to SA 315 and SA 330. 3. The auditor should review the reports of internal auditor. 4. The auditor may come across situations where a weakness in internal control has been placed before the board of directors but the same has not been considered. 5. In case there is a continuing failure on the part of the company to correct major weakness in the internal control system, the auditor should also make a re-assessment of the control risk.
(v) In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of Sections 73 to 76 or any other relevant provision of the Act and the rules framed there under, whether applicable, have been complied with. If not, the nature of contraventions should be stated; if an order has been passed by company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other Tribunal whether the same has been complied with or not?	1. The auditor shall determine whether the deposits have been accepted from the public in accordance with the provisions of Sec. 76. 2. The auditor shall determine whether the deposits have been accepted from the members in accordance with the provisions of section 73(2) & companies (Deposits) rules, 2014. 3. The Auditor shall determine whether the deposits accepted before the commencement of the companies Act, 2013 have been report in accordance with the provisions of Sec. 74. 4. The auditor has to, therefore, first determine whether there is a default in any repayment of such deposits. 5. The auditor, in such a case, should examine the internal controls in this regard and determine its efficacy.
(vi) Where maintenance of cost records have been prescribed by the Central Government under Section 148(1) of the Act, whether such accounts and records have been made and maintained.	1. The order requires the auditor to report whether cost accounts and records have been made and maintained when required under 148(1) 2. The auditor should obtain a written representation from the management.

	3. The auditor should, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained.
(vii) (a) Is the company regular in depositing undisputed statutory dues including Provident fund, Investor Education and Protection Fund, Employees' State insurance, Income-Tax, Sales-tax, VAT, Service tax, Wealth tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.	1. This clause requires the auditor to report upon the regularity of the company in depositing undisputed statutory dues. 2. The intention of the Government, in this clause is to ascertain how regular the company is in depositing statutory dues with the appropriate authorities. 3. Since the emphasis of the clause is on the regularity, the scope of auditor's inquiry is restricted to only those statutory dues which the company is required to deposit regularly to an authority. 4. For the purpose of this clause, the auditor should consider a matter as "disputed" where there is a positive evidence or action on the part of the company to show that it has not accepted the demand for payment of tax or duty, *e.g.*, where it has gone into appeal. 5. It may be noted that penalty and/or interest levied under the respective laws would be covered within the term "amounts payable".
(b) In case dues of Income Tax/ Sales Tax/ Wealth Tax/ Service Tax/ Custom Tax/ Excise Duty/ Cess have not been deposited on account of any dispute, the amounts involved and the forum where dispute is pending shall be mentioned.	1. This clause requires that in case of disputed statutory dues, the amounts involved should be stated along with the forum where the dispute is pending. 2. It is clarified here that mere representation to the concerned Department does note constitute dispute.
(c) whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made there under has been transferred to such fund within time.	
(viii) Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.	1. The clause is applicable to all the companies that are in existence for five years or more from the date of registration till the last day of the financial year covered by the auditor's report. The clause requires the auditor to report: (a) Whether the accumulated losses at the end of the financial year are more than 50% of its net worth; and (b) Whether the company has incurred cash losses during the period covered by the report and in the financial year immediately preceding the period covered by the report. 2. The term "loss" should be constructed to mean the net profit/loss shown by the profit and loss account of the company as adjusted after taking into account qualifications in the audit report. 3. "Net worth" is "sum total of the paid-up capital and free reserves after deducting the provisions or expenses as may be prescribed".

	4. The figure of cash loss of the company for the financial year covered by the audit report and the immediately preceding financial year should also be adjusted for the effect of qualifications in the respective audit reports.
(ix) Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported.	1. If the answer is in the affirmative the auditor is also required to mention the period of default and the amount of default. 2. Dues to financial institution, banks or debenture holders would include the principal as well as interest. 3. It is clarified that the auditor should report the period and amount of all defaults existing at the balance sheet data irrespective of when those defaults have occurred. 4. The auditor should obtain a schedule of repayments to banks, financial institutions and debenture holders from the management of the company. 5. The auditor should examine the agreement or other documents containing the terms and conditions of the loans and borrowings of the company from banks and financial institution. 6. The auditor should also examine the debenture trust deed.
(x) Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.	1. Guarantee given by a company is a contingent liability. 2. In respect of contingent liabilities, the auditor is normally concerned with seeking reasonable assurance that all continent liabilities are identified and properly valued and disclosed as an off-balance sheet item. 3. The auditor should examine the Memorandum of Association of the company with a view to determine whether the company can give a guarantee. 4. The auditor should also verify whether the company has complied with the requirements of Act.
(xi) Whether the term loans were applied for the purpose for which the loans were obtained.	1. The auditor should ascertain whether the company has taken any "term loans". 2. Term loans normally have a fixed or pre-determined repayment schedule. 3. Terms loans are generally provided by banks and financial institutions for acquisition of capital assets which often become the security for the loan. 4. The auditor should examine the terms and conditions subject to which the company has obtained the term loans. 5. It may so happen that the term loans taken during the year might not have been applied for the stated purpose during the year, for example, the loan was disbursed at the end of the year.
(xii) Whether any fraud on or by the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated.	1. The clause does not require the auditor to discover the frauds on the company and by the company. 2. The auditor is also required to comply with the requirements of SA-240. 3. The term "fraud" refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. 4. Misappropriation of assets involves the theft of an entity's assets. 5. The auditor should examine the reports of the internal auditor with a view to ascertain whether any fraud has been reported or noticed by the management. 6. The auditor should also discuss the matter with other employees of the company. The auditor should also examine the minute book of the board meeting of the company in this regard.

A Quick Revision of CARO

Not applicable to : (i) Banking Company; (ii) Insurance Company; (iii) Company u/s. 8; (iv) OPC & Small Companies (v) Private Limited Company, at all the times during year whose –

(a) Paid up Capital + Reserves ≤ 50 lakh; and

(b) Loan o/s ≤ 25 lakh; and

(c) Turnover ≤ 5 crore rupees.

Turnover (Sale of goods & services both)

(i) Trade Discount should be deducted.

(ii) Sales Tax / Excise duty should be deducted from turnover if credited separately to such A/c.

(iii) Sales returns should be deducted (even if it is from prior years).

(iv) Commission to III[rd] parties not to be deducted from turnover.

Reserve

{(Capital Reserves + Revaluation Reserves) + (Revenue Reserves –Debit Balance of P/L Account)}.

Loan o/s.

In aggregate, from Banks or Financial Institutions, should be taken.

Matters to be considered

1. **Fixed Assets**
   - Proper records(situation wise and quantity wise)
   - Physical verification and discrepancies

2. **Inventories**
   - Physical verification
   - Procedure reasonable (inadequacy to be pointed out)
   - Proper records and discrepancy.

3. **Loans to interested parties**
   - Receipt regular
   - If overdue amount > 1 lakh, reasonable steps.

4. **Internal Control**
   - Purchase of inventory and Fixed assets
   - Sale of goods and services
   - Is failure to correct weaknesses?

5. **Companies accepting public deposit**
   - RBI/Companies Act/any other act complied.
   - Order by CLB/RBI/Court/NCLT complied.
   - Amount transferred to fund.

6. **Cost Record:** Whether maintained, if prescribed.

7. **Statutory Dues**
   - Regular in depositing undisputed statutory dues. If not, extent of arrears as at balance date exceeding 6 months to be reported.
   - If dispute, amount and forum.

8. **Company registered ≥ 5 years**
   - Accumulated losses at end ≥ 50% of net worth, and
   - Cash loss in this / immediately preceding F.Y.
9. **Defaulted**: Default in Payment of dues of Financial Institutions or Debenture holders – Yes, then amount.
10. **Guarantee to Bank / Financial Institution :** Terms and conditions prejudicial
11. **Term Loans:** Applied for purpose for which obtained.
12. **Fraud:** on / by company reported. If yes, then, nature and amount.

QUESTIONS

(1) Write down auditor's duties under section 143 of The Companies Act' 2013.

(2) ABC Pvt. Ltd. has turnover of Rs. 3.50 crore from sales of goods & 2.50 crore from sales of services. It includes VAT collected amounting to Rs. 0.75 crore and trade discount of Rs. 0.50 crore. Its paid up capital is Rs 30 lakhs, Capital reserves 5 lakhs, revenue reserves 3 lakhs. It obtained Rs 15 lakh each from 2 banks as loan in the starting of year. However, as at 31.3.15 (B/S date) amount outstanding is Rs 7 lakh each towards them as remaining amount has been repaid during the year. Discuss applicability of CARO on the company for year 14-15. Applicable

(3) ABC Ltd., a public company defaulted in payment of income tax and service tax. Comment.

(4) Comment on reporting requirements under CARO w.r.t. loans given to parties covered under register maintained u/s 189.

6.5 QUESTIONS ASKED IN PREVIOUS EXAMS

Question

(a) H.W.P. Private Ltd. is having only two members H and W. During the audit of accounts for the year ended 31st March, 2000, you as auditor find that:

(i) H, who is incharge of purchases has introduced fictitious purchase bills of Rs.50 lakhs.

(ii) W, who is incharge of sales has sold goods worth Rs.1 crore without bringing the same in the books of account.

You raise the matter with H and W in their capacity as directors. They contest that as this is a position known to them and within their own fold, you should not report the same under the Companies Act,.

Discuss whether the above arguments are acceptable under the Companies Act, for non-reporting. If not, state the reasons and the manner of reporting. (6 marks)

(b) Under the CARO, an auditor is required to report on the regularity of payment of Provident Fund and Employees' State Insurance dues.

Give alternative drafts of the report on this clause mentioning the circumstances of reporting.

(6 marks) (Final Nov 2000)

Answer

(a) (i) The scope of audit of a company is determined by provisions of the Companies Act, 2013.

(ii) The terms of the engagement cannot restrict the scope of audit in relation to matters which are prescribed by law.

(iii) Moreover, the rights of an auditor available under statute cannot be restricted.

(iv) The auditor has to state whether "in his opinion and to the best of his information and according to the explanations given to him", the accounts "give a true and fair view".

(v) The inflation of purchases (which in this case is of Rs.50 lakhs) and omission of sales (which in this case is of Rs.1 crore) is bound to affect the true and fair view of the financial statements of the company.

(vi) Therefore, the fact that there are only two members and they are fully aware of such transactions would not have any impact as far as scope of audit is concerned.

(vii) Thus, auditor shall report these aspects in the audit report.

REPORTING

"The purchases of Rs.......... as reflected in the profit and loss account are overstated by Rs.50 lakhs and sales of Rs.........as reflected in the Profit and Loss Account are understated by Rs.1 crore. This has had the effect of understating the profits of the company by Rs.1.50 crores. On account of these discrepancies, the current liabilities are overstated by Rs.50 lakhs, the current assets are understated by Rs.1 crore and reserves are understated (before tax) by Rs.1.50 crores."

Subject to the above, in our opinion and to the best of our information, the accounts present a true and fair view.

(viii) Moreover, it being in the nature of fraud reporting u/s 143(12) to (15) is also required.

(ix) The manner of reporting will be as given under rule 6. (Chapter 5)

(b)
- As per CARO'2015 under section 143(11) of the Companies Act, 2013 the auditor is required to report whether the company is regular in depositing statutory dues including Provident Fund or Employees' State Insurance (ESI) with the appropriate authority.
- The auditor has to report on the regularity of deposit of provident fund and Employees' State Insurance.
- Moreover, the auditor should indicate the extent of arrears as at balance sheet date exceeding six months.
- Alternate reporting in different cases:

"Provident Fund/Employees' State Insurance dues have generally been regularly deposited with the appropriate authorities in all cases during the year".

"Provident Fund/Employees' State Insurance dues have generally been regularly deposited with the appropriate authorities though there has been a slight delay in a few cases".

"Provident Fund/Employees' State Insurance dues have not generally been regularly deposited with the appropriate authorities though the delays in deposit have not been serious".

"Provident Fund/Employees' State Insurance dues have not been regularly deposited with the appropriate authorities and there have been serious delays in a large number of cases".

In case of arrears, the following wording may be used:

"Provident Fund/Employees' State Insurance dues relating to the period ...... and aggregating to Rs........ which had fallen due for deposit had not been so deposited and the said amount is in arrears as at balance sheet date as well".

Question

Is the auditor of a company supposed to refer any paragraph in Director's report in his own report to the shareholders of the company? State your views in this regard. (8 marks) (Final Nov 2000)

Answer (refer to SA 720 and SA 706 OTHER MATTER PARAGRAPH)

Question

Audit Certificate as distinguished from Audit Report (Final May 2002); (Final Nov 2004)

Answer

Audit Certificate and Audit Report:

- The certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion.
- The term 'certificate' is, therefore, used in case of verification of the accuracy of facts.

- An auditor's certificate represents that he has verified certain figures and is in a position to vouch their accuracy.
- A report, on the other hand, is prepared on the basis of conclusions based upon evidences obtained through performing procedures on the data to be examined and includes the auditor's opinion thereon.
- The 'report' involves expression of opinion which may differ from one professional to another.
- In case of a certificate, he is responsible for the factual accuracy of what is stated therein.

Question

Disclosure under "Basis of Issue Price" in prospectus. (Final May 2006)

Answer Disclosures under 'Basis of Issue Price': Under this heading, the following information is to be disclosed:

(i) (a) Earnings per share, i.e., EPS pre-issue for the last three years ;

(b) P/E pre-issue and comparison thereof with industry P/E where available (giving the source from which industry P/E has been taken);

(c) Average return on net worth in the last three years;

(d) Minimum return on the increased net worth required to maintain pre-issue EPS;

(e) Net Asset Value per share based on last balance sheet;

(f) Net Asset Value per share after issue and comparison thereof with the issue price.

(ii) The accounting ratios disclosed in the offer document in support of basis of the issue price shall be calculated after giving effect to the consequent increase of capital on account of compulsory conversions outstanding.

Question

What are the contents of reports and certificates for special purposes? (6 marks) (Final Nov 2002)

Answer

Refer to SA 800

Question

What is your understanding of the term "true and fair view" in a statutory audit report of a company?

[8 marks (Final May 2003]

Question

Distinguish with suitable examples - Between a case where an auditor is obliged to state in his report to the members of a company that the accounts do not show a true and fair view, and a case where he states that he is unable to form an opinion as to whether or not the accounts give a true and fair view. (8 mark) (Final Nov 2003)

Answer. (discuss SA 705 : Adverse Report and Disclaimer of Opinion)

Question

Bring out the significance of the following illustrative paragraph found in the statutory auditor's report in recent days.

(i) **Opening Paragraph:**

"We have audited the attached Balance Sheet of .... as at 31st March, 2xxx and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements".

(4 marks) (Final Nov., 2004)

Answer

(i) **Opening Paragraph:**

- As per SA 700 (revised), the opening or introductory paragraph identifies the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.

- Within the audit report it is also clarified to the users of financial statements that preparation of the accounts is the responsibility of the management of the enterprise.
- The preparation of such statements requires management to make significant accounting estimates and judgments and apply the appropriate accounting principles.
- The responsibility of the auditor is to express an opinion on the said accounts based on audit carried out by him.
- Thus, it is evident from the paragraph that there is a clear cut distinction between the duties of management and the auditor.

Question

(a) A Pvt. Ltd. is incorporated on 1st July, 2004. During the year ended 31st March, 2005, it had issued shares (fully paid up) of Rs. 40 lakhs, had borrowed Rs. 7.5 lakhs each from 2 financial institutions and its turnover (Net of excise Rs. 50 lakhs which is credited to a separate account) is Rs.475 lakhs. Will Companies Auditors Report Order, 2015 (CARO) be applicable to A Pvt. Ltd.? (4 marks)

(b) As the statutory auditor of B Ltd. to whom CARO, 2015 is applicable, how would you report in the following situations?

(i) The company has stood guarantee to its sister concern, whose financial condition was not healthy for a sum of Rs. 20 lakhs borrowed from a bank.

(ii) Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.

(iii) Accumulated losses of the company are 50.9% of its net worth and it is incurring continuous cash losses since last 2 years. ($4 \times 3 = 12$ marks) (Final May 2005)

Answer

(a)
- The Companies (Auditor's Report) Order, 2015 (CARO) provides that it shall not apply to:
  - (i) A banking company;
  - (ii) An insurance company;
  - (iii) A company licensed to operate under Section 8 of the Companies Act; and
  - (iv) OPC & Small Company
  - (v) A private limited company with a paid-up capital and reserves not more than rupees fifty lakhs and which does not have outstanding loan exceeding rupees twenty five lakhs from any bank or financial institution and does not have a turnover exceeding rupees five crores at any point of time during the financial year.
- Thus, CARO is not applicable to a private limited company if all the aforesaid conditions are fulfilled.
- In the present case, the paid-up capital of A Pvt. Ltd. is less than Rs.50 lakhs, turnover is less than Rs. 5 crores since excise duty is not taken into account if it is credited separately to excise duty account.
- However, the amount of outstanding loan taken from bank/financial institution have to be considered on an aggregated basis. M/s A Pvt. Ltd. has total borrowings of Rs. 15 lakhs from both the institutions, yet it is within the said limit of 25 lakh.
- As the company fulfills all the conditions, CARO is not applicable.

(b) (i)
- As per CARO, 2015 , the auditor is required to state in his report whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and condition whereof are prejudicial to the interests of the company.
- The auditor should examine the MOA to determine whether the company has the power to give guarantee.
- The auditor should also examine whether guarantee has been issued under the sanction of competent authority.
- It should also be ensured that the guarantee given is shown as contingent liability.
- The auditor should consider financial standing of the party, nature of security offered etc. while determining whether the guarantee is prejudicial to the interest of the company,

- In this case, since financial condition of the company on behalf of whom guarantee is given is not so good, the auditor may report under CARO as follows:

"the terms and conditions on which the company has given guarantees for loans taken by the sister concern, is prejudicial to the interests of the company."

(ii)
- Physical verification of inventory is the responsibility of the management.
- As per the requirements of CARO, 2015 , the auditor is required to state in his report Whether inventories have been physically verified by the management at reasonable intervals and whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account
- The auditor should satisfy himself about verification by the management at reasonable intervals.
- In the given case, physical verification of only 50% (in value) of items of inventory has been conducted by the company. Hence, the above requirement of CARO, 2015 has not been fulfilled.
- Thus, the auditor should point out that procedure of inventory verification is not reasonable.

(iii)
- CARO, 2015 requires the auditor to state in his report Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
- In the present case, Accumulated losses of the company are 50.9% of its net worth and it is incurring continuous cash losses since last 2 years. Assuming that the company is in existence for more than 5 years, the company is covered by the above requirements.
- Thus, auditor should report the same as per the aforesaid requirements of CARO.

Question

Discuss the reporting requirements under CARO 2015 where a company has defaulted in compliance of section 73 of the companies Act with regard to deposits.

Question

Answer the following:

(a) What are the statements of facts that an auditor has to report u/s 143 of the Companies Act, 2013?

(b) Illustrate, as a statutory auditor, how would you give a report where all qualifications are not quantifiable.

(c) Under CARO, 2015 how, as a statutory auditor would you comment on the following:

A Term Loan was obtained from a bank for Rs.75 lakhs for acquiring R&D equipment, out of which Rs.12 lakhs was used to buy a car for use of the concerned director, who was overlooking the R&D activities.

Answer

(a) **Statements of Facts u/s 143(3) of the Companies Act, 2013 (Refer to Chapter 5):**

(b) **An illustrative Format of Audit Report:**

- As per SA 705, auditor is required to provide Basis for modification as well as the quantification thereof in case of modified opinion.
- However, in some cases, it may not be practicable for the auditor to quantify the effect of modification in the audit report.
- Thus, the auditor may use estimates made by the management and clearly indicate the fact that the figures are based on management estimates.
- Ordinarily, this information would be set out in a separate paragraph.
- Illustration of a qualification where quantification was not possible:-

" No provision has been made in respect of buy back warranties given to the customers. The amount of provision required in this behalf could not be ascertained."

Subject to the above in our opinion....................

(c) **Utilisation of Term Loans:**

- Under CARO, 2015, an auditor is required to comment whether term loans were applied for the purpose for which the loans were obtained.
- The auditor should ascertain whether the company has taken any "term loans".

- Term loans normally have a fixed or pre-determined repayment schedule.
- Terms loans are generally provided by banks and financial institutions for acquisition of capital assets which often become the security for the loan.
- The auditor should examine the terms and conditions subject to which the company has obtained the term loans.
- In the present case, term loan taken for the purpose of R&D equipment has been utilized for purchase of car which has no relation with R&D equipment.
- Thus, the auditor should mention in his report that the out of term loan of Rs.75 lakhs for acquiring R&D equipment, Rs.12 lakhs was not utilised for the purpose of acquiring the R & D equipment.

Question

Answer the following:

(a) Discuss the various aspects to be considered by the Statutory Auditor before qualifying his report.

(b) As a Statutory Auditor, how would you report on the following under CARO:

ABC Pvt. Ltd. is a Manufacturer of jewellery. A senior employee of the Company informed you that the Company does not properly disclose the purity of gold used on the jewellery

Answer

(a) Aspects to be Considered Before Qualifying the Audit Report:
refer to SA 705

(b)

- The auditor is concerned with material misstatement in financial statements.
- If books of account are not falsified arising out of difference in the purity of gold, i.e., actual cost of the gold and the sale price of gold, it has no implication for the auditor.
- In the present case, purity of gold is not properly disclosed on the jewellery. It means the management is deceiving customers to obtain an illegal advantage.
- Thus, from the view point of reporting on frauds under CARO, 2015, there is no implication for misstatement in the financial statements.
- Hence, no reporting is necessary for non-proper disclosure of purity of gold on the jewelry.
- It should be noted in this connection that now as per SA 706, the same can be reported in "Other matters" paragraph.

Question

Draft audit report u/s 143(3) of the Companies Act, 1956 on the following three situations in respect XYZ Ltd. as on 31.3.2015:

(i) Where all directors have given written representations that they have not defaulted u/s 164(2) of the Companies Act, 2013.

(ii) Where one of the directors, Mr. Flexible has failed to produce written representation that he has not defaulted u/s 164(2) of the Companies Act, 2013.

(iii) Where on the basis of written representations received from the directors it is noticed that one of the directors, Mr. Rigid has defaulted in terms of Section 164(2) of the Companies Act, 2013.

Answer

Draft audit report u/s 143(3):

(i) Where the directors have not defaulted :

"On the basis of the written representations received from the directors, we report that none of the directors is disqualified as on 31 March, 2015 from being appointed as a directors in terms of Section 164(2) of the Companies Act, 2013

(ii) Where one of the directors failed to produce written representation.

"A director of XYZ Ltd., Mr. Flexible has failed to produce any written representation as to whether the other companies in which he is a director had not defaulted in terms of Section 164(2) of the companies Act. In the absence of the representation we are unable to comment whether Mr. Flexible is disqualified from being appointed as director in terms of section 164(2). As far as other directors are concerned on the basis of the written representation received from such directors, we report that none of the remaining directors is disqualified as on 31.3.2015 from being appointed as a director in terms of Section 164(2) of the Companies Act, 2013".

(iii) Where a director is found to be disqualified

"On the basis of the written representation received from Mr. Rigid who is a director of XYZ Ltd. as on 31.3.2015, we report that Mr. Rigid is disqualified from being appointed as a director under Section 164(2) of the Companies Act, 2013. As far as other directors are concerned, on the basis of written representations, we report that none of the remaining directors is disqualified from being appointed as director in terms of Section 164(2) of the Companies Act."

Question

While auditing the accounts of ABC private limited, auditor came across cases of payments to Directors, whereby, expenses of a personal nature were reimbursed.

While doing the audit, X, the Statutory Auditor of ABC Ltd. observes that certain loans and advances were made without proper securities, certain debtors and creditors were adjusted inters, and personal expenses were charged to revenue. Comment. (6 Marks) (Final Nov., 2010)

Answer

Refer to section 143(1)

Question

Write short notes on Propriety elements in CARO

Question

Explain the propriety elements in the Companies (Auditors) Report Order, 2015

Ans.

Propriety elements in CARO, 2015

Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 189 of the Act, if so,

(a) Whether the receipt of the principal amount and interest are also regular.

(b) If overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recover of the principal and interest.

(a) Is the company regular in depositing undisputed statutory dues including Provident fund, Investor Education and Protection Fund, Employees' State insurance, Income-Tax, Sales-tax, VAT, Service tax, Wealth tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor.

(b) In case dues of Income Tax/ Sales Tax/ Wealth Tax/ Service Tax/ Custom Tax/ Excise Duty/ Cess have not been deposited on account of any dispute, the amounts involved and the forum where dispute is pending shall be mentioned.

(c) whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made there under has been transferred to such fund within time.

Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported.

Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company.

Question

What are the liabilities of auditors under the companies act 2013 and the income tax act 1961

Ans.

6.6 LIABILITIES UNDER INCOME TAX ACT 1961

A Chartered Accountant also acts as the authorized representative of his clients and attends before an Income Tax Authority or the appelate tribunal.

His liabilities under the Income Tax Act of 1961 are as below:

(i) **Under Section 288** - A person who has been convicted of any offence connected with any Income Tax proceeding or on whom a penalty has been imposed under the said Act is disqualified from representing an assesses. The Chief Commissioner/Commissioner of Income Tax has been given powers to determine the period of such disqualification of a person. A Chartered Accountant found guilty of professional misconduct in his professional capacity by the Council of the Institute of Chartered Accountants of India, can not act as an authorised representative (for any matter within the definition of a member in practice) for such time that the order of the Council disqualifies him from practicing.

(ii) **Under Section 278** - Any person who acts or induces, in any manner another person to make and deliver to the Income Tax Authorities a false account, statement, or declaration, relating to any income chargeable to tax which he knows to be false or does not believe to be true.

(iii) **Under Rule 12A of the Income Tax Rules** - Under this rule a Chartered Accountant who as an authorized representative has prepared the return filed by the assessee, has to furnish to the Assessing Officer, the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return. Where the Chartered Accountant has conducted an examination of such records, he has also to submit a report on the scope and results of such examination. The report to be submitted will be a statement within the meaning of Section 277 of the Income Tax Act. Thus if this report contains any information which is false and which the Chartered Accountant either knows or believes to be false or untrue, he would be liable to rigorous imprisonment which may extend to seven years and to a fine.

6.7 CRIMINAL LIABILITY FOR MIS-STATEMENTS IN PROSPECTUS (Sec. 34 of 2013 Act)

Nature of criminal liability	Where a prospectus includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to mislead, every person who authorizes the issue of such prospectus shall be liable u/s 447.*	
Defences	*Immaterial*	The person proves that the statement or omission was immaterial.
	Belief in truthfulness of the statement	The person proves that – – he had reasonable ground to believe that the statement was true; *and* – he continued to believe upto the time of issue of the prospectus, that the statement was true or the inclusion or omission was necessary.

6.8 REMEDIES AGAINST PROMOTERS, DIRECTORS AND EXPERTS or CIVIL LIABILITY FOR MIS-STATEMENT IN PROSPECTUS (Sec. 35 of 2013 Act)

When is Sec. 35 attracted?	Where a person has subscribed for securities of a company acting on any statement included, or the inclusion or omission of any matter, in the prospectus which is misleading and has sustained any loss or damage as a consequence thereof.

Persons liable for mis-statement	(i) The company (ii) Every person who is a director of the company at the time of issue of prospectus; (iii) Every person who has authorised himself to be named and is named in the prospectus as a director of the company; (iv) Every person who has agreed to become a director of the company, either immediately or after an interval of time; (v) Every person who is a promoter of the company; (vi) Every person who has authorised the issue of the prospectus; and (vii) Every person who is an expert.
Punishment	Every person liable for mis-statement shall be liable for - (a) payment of compensation to every person who has sustained any loss or damage; (b) punishment for fraudulently inducing any person to invest money u/s 36.
Defences	No person shall be liable u/s 35, if he proves - (a) that, having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or (b) that the prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.
Liability in case of fraud	Where it is proved that a prospectus has been issued with intent to defraud the applicants or any other person or for any fraudulent purpose, every person referred to in Sec. 35 shall be personally responsible, without any limitation of liability, for all or any of the losses or damages that may have been incurred by any person who subscribed to the securities on the basis of such prospectus.

6.9 PUNISHMENT FOR FRAUD (Sec. 447 of the Companies Act, 2013)

When is Sec. 447 attracted?	Where any person is found guilty of fraud.		
Punishment u/s 447		*Fraud involves public interest*	*Any other case*
	Min. Imprisonment	3 years	6 months
	Max. Imprisonment	10 years	10 years
	Min. Fine	Amount involved in the fraud	Amount involved in the fraud
	Max. Fine	3 times the amount involved in the fraud	3 times the amount involved in the fraud
Other liabilites to remain unaffected	The person liable u/s 447 shall continue to be liable for any other liability under this Act or any other law for the time being in force (including repayment of any debt).		
Meaning of certain terms	*Fraud*	'Fraud' includes any act, omission, concealment of any fact or abuse of position with intent to deceive, to gain undue advantage from, or to injure the interests of, any other person, whether or not there is any wrongful gain or wrongful loss.	
	Wrongful gain	'Wrongful gain' means the gain by unlawful means of property to which the person gaining is not legally entitled.	
	Wrongful loss	'Wrongful loss' means the loss by unlawful means of property to which the person losing is legally entitled.	

Note: For liabilities of auditors under section 147, please refer to chapter 5.

Question

Under the applicable Standards on Auditing, in what circumstances does the report of the statutory auditor require modifications? What are the types of modifications possible to the said report? (8 marks) (Nov., 2012)

Question

Mr. X, a young chartered accountant, wants to start practice and he requires your advice, among other things, on criminal liabilities of an auditor under the Companies Act, 1956. Kindly guide him. (4 marks) (Nov., 2013)

Question

Audit Qualification vs. Emphasis of Matter (3 marks) (Nov., 2014)

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